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C O N F I D E N T I A L SECTION 01 OF 03 BRUSSELS 000314

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TAGS: ECON ENRG EPET ETRD EU RS IR

SUBJECT: OMV ARGUES FOR ACCESS TO IRANIAN GAS FOR NABUCCO

Classified By: T. Smitham for reasons 1.5 (B/D).

¶1. (C) Summary. In a February 21 meeting with Deputy Assistant Secretary for European and Eurasian Affairs Matthew Bryza and Econ Officer, OMV CEO Wolfgang Ruttenstorfer argued that the Nabucco project is at a critical stage, with his most important concern being gas supplies. Ruttenstorfer lamented Azerbaijan's continuing inability to commit gas volumes for Nabucco and said that without this commitment the project will not move forward. Even a commitment of 5 bcm/year from Azerbaijan would not be sufficient, however, to make the project economic. Ruttenstorfer believes Nabucco needs guarantees of gas supplies of at least 8-10 bcm/year and realistic perspectives for 15 bcm/year down the road. As a result, OMV is looking elsewhere in the Caspian region for more gas. To Ruttenstorfer, the most logical source for additional gas volumes is Iran. While acknowledging US concerns over Iran, he argued that if the EU does not come up with a solution to import gas from Iran, Russia will. Ruttenstorfer warned Gazprom wants to export its gas at South Pars via Turkmenistan and into Russia and beyond. He argued that collusion between Moscow and Tehran on this issue is in no one's interest in the Euro/Atlantic community. End Summary.

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Concerns Over Gas Volumes  
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¶2. (C) In a February 21 meeting with Deputy Assistant Secretary for European and Eurasian Affairs Matthew Bryza and

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Econ Officer, OMV CEO Wolfgang Ruttenstorfer said he believes the Nabucco project is at a critical phase. He is concerned about transit negotiations with Turkey, but believes this can be worked out. His greatest concerns are over gas supplies for the project. Ruttenstorfer lamented Azerbaijan's continuing inability to commit gas volumes for Nabucco. As it stands now, he sees 0-5 bcm/year coming from Azerbaijan. In other words, he does not feel comfortable that Azerbaijan gas volumes are guaranteed. To Ruttenstorfer, even 5 bcm/year is not enough to justify the project on a commercial

basis and he stated there will be no decision to build based on only 5 bcm/year of supplies. To move ahead with the project, Ruttenstorfer believes Nabucco needs guarantees of gas supplies of at least 8-10 bcm/year and realistic perspectives for 15 bcm/year down the road. As a result, OMV is looking elsewhere in the Caspian region for more gas.

¶ 13. (C) DAS Bryza acknowledged Ruttenstorfer's concerns, but appealed for a little more time to line up the Azeri volumes, work on the Turkmenistan inter-connection, and pursue Iraq gas. DAS Bryza underscored strong U.S. opposition to energy investment with Iran. DAS Bryza explained Baku would hopefully show a greater willingness to conclude a sales/purchase agreement for 5 bcm/year once it concluded the gas transit agreement with Ankara. Ruttenstorfer said he hoped EU Nabucco Coordinator Jozias Van Aartsen would help broker the gas transit agreement in coming weeks, then shift to an intergovernmental agreement for Nabucco, (which DAS Bryza stressed must include Azerbaijan from the outset). Ruttenstorfer related that OMV has been talking with the Kurdish authorities in northern Iraq in an attempt to acquire exploration blocks with gas potential, but the Kurdish authorities are focused on oil not gas. As a result, he sees Kurdish gas as a possibility but not by 2013. He thinks Iraqi gas supplies won't be a factor until 2017 or more likely 2020.

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If the EU Doesn't Proceed with Iran Russia Will  
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¶ 14. (C) Ruttenstorfer indicated that if Azerbaijan doesn't step up soon and demonstrate its ability to provide gas on time, Nabucco will be forced to look toward Iran and Russia. OMV's concern is that if the EU doesn't proceed with Iran, the Russians will. Ruttenstorfer sees the Russians as lining up their gas sources: Kazakhstan, Turkmenistan, and

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Uzbekistan. The logical next step is Iran. Ruttenstorfer warned Gazprom wants to export its gas at South Pars via Turkmenistan and into Russia and beyond. He argued that collusion between Moscow and Tehran on this issue is in no one's interest in the Euro/Atlantic community. Ruttenstorfer believes Gazprom's ultimate goal is to buy Iranian gas and sell it to the EU. The invoice to the EU may well be stamped "Russian Gas", but he doesn't doubt the actual molecules will be coming from Iran. Ruttenstorfer believes neither Europe nor the US should accept this eventuality because it will make the EU even more dependent on Russia. Ruttenstorfer implied the US might have better success with Iran by offering the carrot of gas exports to Europe rather than using the current sanctions only approach.

¶ 15. (C) Ruttenstorfer was keen to make the US aware of the problem of Russian designs on Iranian gas. He emphasized that getting gas from Iran is not a new idea. At the end of the 1980s OMV signed contracts with Iran for gas and actually built part of Baumgarten to take Iranian gas, via a Russian swap. As such the Russians are well aware Iran is the prize when it comes to future gas supplies. Without an alternate gas supply from Nabucco, Ruttenstorfer warned that Russia will dominate the South East European market. DAS Bryza stressed that the US does see other alternatives to Iranian gas. He pointed to recent encouraging developments with Turkmenistan and the possibility of tying offshore gas from Turkmenistan into the Azeri system. After consulting with Embassy Baghdad, DAS Bryza also shared with OMV that the Akkas field in western Iraq could provide gas volumes of 4 to 5 bcm/year as early as 2013.

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South Stream is Not Commercially Viable  
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¶ 16. (C) Turning to South Stream, Ruttenstorfer stressed the project makes no commercial sense and may never be built. OMV estimates South Stream will cost EUR 9-10 billion just

for the Black Sea portion and that the pipeline is not commercially viable. Russia is pursuing the project now to pressure Ukraine, pressure Turkey on pricing for Blue Stream gas, bolster its monopoly power on gas distribution in Central Europe, and keep gas prices in general high. On Gazprom's desire to sustain higher gas prices, he agreed with Bryza's contention that it may cost Gazprom more to produce and ship gas to Baumgarten than the \$285 sales price for such gas in Austria, but added Gazprom makes up the difference through higher priced gas sales to Germany. These factors, Ruttenstorfer conceded, were a key reason Gazprom bought into the distribution hub at Baumgarten. Gazprom's goal is to restrict competition and acquire as much European infrastructure as possible while sustaining high gas sales prices. Ruttenstorfer believes losing money in the short run on a project like South Stream is not a big worry for Gazprom.

¶7. (C) OMV views Nabucco as a winning project, regardless of how many countries sign MOU's on South Stream, as there will be plenty of demand for gas provided by both a commercially viable Nabucco project and the commercially challenged South Stream. OMV views Russian gas as only additive to Nabucco, if other, non-Russian gas can be found. OMV is anxious to reduce its own corporate dependence on Gazprom, even though the company is OMV's partner on many ventures.

¶8. (C) Comment. Whether or not Nabucco moves forward hinges on three factors where the US can play an important role:

-- The first essential step is encouraging Azerbaijan to clearly demonstrate its commitment to supply at least 4 to 5 bcm/year to Nabucco.

-- Secondly, working with the Iraqis to enable gas exports from Akkas could be decisive for Nabucco.

-- Finally, we need to continue our work to encourage Azerbaijan and Turkey to wrap up a gas transit agreement.

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End Comment.

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